Updated 12/05/2011

In the Spotlight: Medicare Supplement

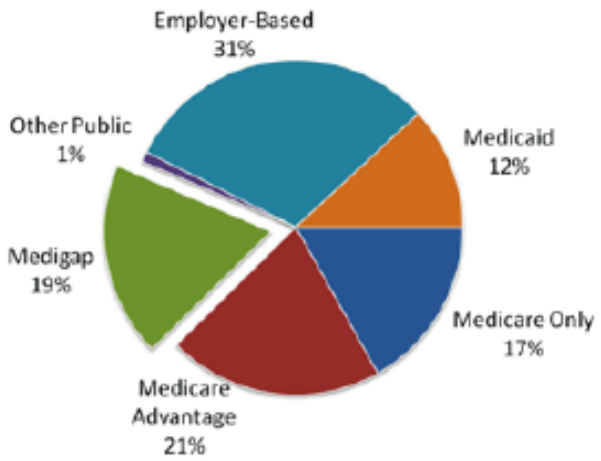
Proposals to slash the supplemental health insurance for Medicare beneficiaries have caught the health insurance industry's attention. There are many forms of Medicare supplemental coverage, called Medigap. The majority of Medigap policies have first-dollar coverage, meaning the coverage begins with the first service received by the beneficiary.

Who Purchases Medigap?

According to Kaiser Family Foundation, the majority of all Medicare beneficiaries have some sort of supplemental coverage, including 9 million who have Medigap. Medicare Parts A (hospital insurance) and B (medical insurance) traditionally have very high out-of-pocket cost-sharing requirements. The beneficiaries who often have Medigap policies do not receive employer-sponsored retiree health insurance coverage, an income low enough to qualify for Medicaid to supplement Medicare, or Medicare Advantage.

Figure 1

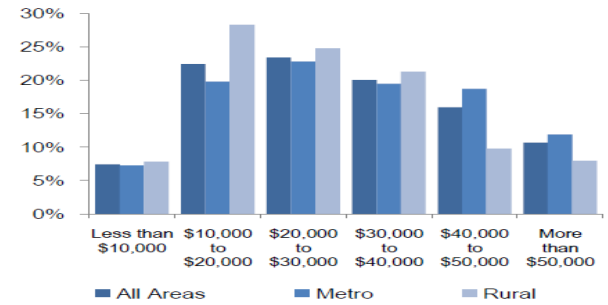
Sources of Supplemental Coverage Among Noninstitutionalized Medicare Beneficiaries, 2008



Source: Low-Income & Rural Beneficiaries with Medigap Coverage, 2008. AHIP Study 2010.

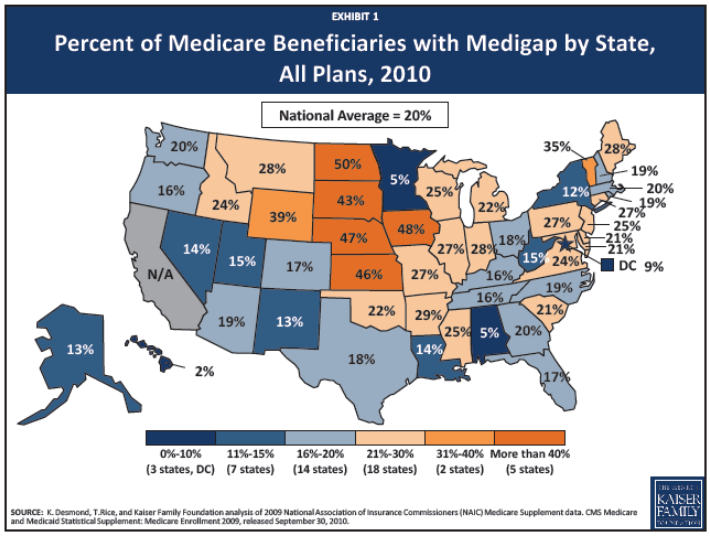
Typically, those who purchase Medigap policies are low- to moderate-income individuals in rural areas that often do not have access to Medicare Advantage plans. America's Health Insurance Plans (AHIP) found that 31 percent of all Medigap policy holders live in rural areas and 52 percent have incomes below $30,000.

Figure 3. Medigap Policyholders, by Income, Metro and Rural Areas (2009)



Source: Medicare Current Beneficiary Survey Access to Care files, 2009 (CMS).
Note: Calculations based on non-institutionalized beneficiaries reporting income.

These plans protect beneficiaries from costs not covered by Medicare, like deductibles and copayments. Most Medigap policies protect beneficiaries from almost all out-of-pocket costs, beginning with the first services a beneficiary receives. Nineteen percent of Medicare beneficiaries in North Carolina have Medigap supplemental coverage; 36 percent of North Carolinians enrolled in Medigap chose Blue Cross and Blue Shield of North Carolina (BCBSNC) as their insurer.[i] The state-by-state breakdown is illustrated below:



ACA, NAIC, and Medigap

Even before the debt discussions of late, the Affordable Care Act (ACA) already saw Medigap policies as targets. ACA requires the National Association of Insurance Commissioners (NAIC) to review the two Medigap policies with first-dollar coverage for potential revision to include "nominal cost-sharing to encourage the use of appropriate physician services under (Medicare) Part B." The new benefit standards are to be made available beginning January 1, 2015.

The NAIC is still developing its recommendations, but has released a discussion paper detailing some of their Subgroup's conclusions. The NAIC raised concerns that the estimated savings associated with changes to the Medigap policies were both prospective and retrospective for all Medicare supplemental insurance business. The group noted very strongly that "Medicare supplement insurance, a product that has served our country's Medicare

eligible consumers so well for so many years is being wrongly singled out as a major contributor to and answer to the increasing costs of the Medicare program." However, the group has yet to make its official recommendations to the US Department of Health and Human Services (HHS).

A Constant Target

Lawmakers' debate over what to cut and what to keep has intensified throughout 2011. Early in 2011, the Bowles-Simpson Commission released policy recommendations that included increasing the cost-sharing requirements for Medigap. Specifically, the Commission suggested barring Medigap policies from covering the first $550 in cost-sharing and limit coverage to 50 percent up to $4,950 before 100 percent coverage could kick in. Mid-summer of 2011, Senators Coburn and Lieberman recommended adding a $550 deductible to Medigap policies with a higher out-of-pocket cap of $7,500. MedPAC recommended fixed dollar co-payments for certain services, combining the premiums for Medicare Parts A and B, and creating financial incentives for beneficiaries to adopt healthier behaviors and visit high-quality, low-cost providers. In September of 2011, President Obama recommended a budget that included charging a 30 percent surcharge on premiums for basic Medicare for those beneficiaries who also purchase Medigap policies. After narrowly averting a debt crisis in August 2011, Congress agreed to form a debt reduction panel called the "Supercommittee," tasked with finding $1.2 trillion in savings in the federal budget. Though the Supercommittee failed to agree on a package, the discussion included a proposal prohibiting Medicare supplement insurance products from providing first-dollar coverage of Medicare cost-sharing.

BCBSNC Views

BCBSNC strongly supports continued availability of Medigap policies. Since the Medicare program began, supplemental Medicare products have played a critical role in helping seniors access needed health services and products. Almost one in five Medicare beneficiaries has a Medigap product and the most popular Medigap products have first-dollar coverage. In a chronically ill population, cost-sharing reduced the use of care for both minor and serious symptoms. Health plans that utilize cost-sharing need to be monitored carefully for potential negative health effects because they often cause patients to reduce the use of care that is considered necessary and appropriate. Across-the-board prohibition on first-dollar Medigap coverage may achieve some cost savings, but those savings would likely be less than estimated, because spending would likely increase for some Medigap enrollees. While we strongly discourage any changes to cost-sharing in Medigap products, if changes do occur they should be across the board. Savings associated with Medigap cuts should be balanced with protecting the Medicare beneficiaries.

For More Information:

AHIP on Medigap: What you Need to Know: http://www.ahipresearch.org/pdfs/MedigapWhatYouNeedtoKnow.pdf

NAIC Medigap Discussion Paper:
http://www.naic.org/documents/committees_b_senior_issues_tf_medigap_ppaca_111011_medigap_draft.pdf and
Conclusions:
http://www.naic.org/documents/committees_b_senior_issues_medigap_ppaca_111025_draft_sectioniv.pdf

[i] Based on internal BCBSNC data.